

CITY OF AFTON, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES**

JUNE 30, 2021

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CITY OF AFTON, IOWA
OFFICIALS
June 30, 2021

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|----------------|---------------------|
| Michelle Burger | Mayor | January, 2022 |
| Sherry Parrott | Mayor Pro-Tem | January, 2022 |
| Dave Cunningham | Council Member | January, 2024 |
| Steve Kinyon | Council Member | January, 2024 |
| Mary Hill | Council Member | January, 2024 |
| Jeff Burger | Council Member | January, 2022 |
| Toni Landers | City Clerk | Indefinite |
| Meggen Weeks | Attorney | Indefinite |

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Afton, Iowa, as of and for the year ended June 30, 2021, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

To the Honorable Mayor and
Members of the City Council

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Afton, Iowa, as of June 30, 2021, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Afton's basic financial statements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 22 through 26, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the Honorable Mayor and
Members of the City Council

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 16, 2021 on our consideration of the City of Afton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Afton's internal control over financial reporting and compliance.

Gomez & Bell, Kyhn & Co. P.C.

Atlantic, Iowa
August 16, 2021

CITY OF AFTON, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

As of and for the year ended June 30, 2021

| | | <u>Program Receipts</u> | |
|---|----------------------|----------------------------|---|
| | <u>Disbursements</u> | <u>Charges for Service</u> | <u>Operating Grants, Contributions, and Restricted Interest</u> |
| Functions/Programs: | | | |
| Governmental activities: | | | |
| Public safety | \$ 73,170 | \$ 1,904 | \$ -- |
| Public works | 325,326 | 67,712 | 126,465 |
| Culture and recreation | 101,189 | 50,055 | 10,576 |
| Community and economic development | 4,000 | -- | 1,600 |
| General government | 98,017 | 15,455 | 19,370 |
| Capital projects | <u>1,548</u> | <u>--</u> | <u>--</u> |
| Total governmental activities | <u>603,250</u> | <u>135,126</u> | <u>158,011</u> |
| Business type activities: | | | |
| Electric | 717,113 | 867,304 | -- |
| Sewer | 101,734 | 92,622 | -- |
| Nonmajor | <u>6,473</u> | <u>6,511</u> | <u>--</u> |
| Total business type activities | <u>825,320</u> | <u>966,437</u> | <u>--</u> |
| Total | <u>\$ 1,428,570</u> | <u>\$ 1,101,563</u> | <u>\$ 158,011</u> |
| General Receipts: | | | |
| Property and other city tax levied for: | | | |
| General purposes | | | |
| Local option sales tax | | | |
| Unrestricted interest on investments | | | |
| Miscellaneous | | | |
| Total general receipts | | | |
| Change in cash basis net position | | | |
| Cash basis net position beginning of year | | | |
| Cash basis net position end of year | | | |

(continued next page)

| Program Receipts Capital Grants, Contributions, and Restricted Interest | Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|--|--|-----------------------------|--------------|
| | Governmental Activities | Business Type Activities | Total |
| \$ -- | \$(71,266) | \$ -- | \$(71,266) |
| 50,000 | (81,149) | -- | (81,149) |
| -- | (40,558) | -- | (40,558) |
| -- | (2,400) | -- | (2,400) |
| -- | (63,192) | -- | (63,192) |
| 6,058 | 4,510 | -- | 4,510 |
| 56,058 | (254,055) | -- | (254,055) |
| -- | -- | 150,191 | 150,191 |
| -- | -- | (9,112) | (9,112) |
| -- | -- | 38 | 38 |
| -- | -- | 141,117 | 141,117 |
| \$ 56,058 | (254,055) | 141,117 | (112,938) |
| | 202,757 | -- | 202,757 |
| | 135,219 | -- | 135,219 |
| | 5,906 | 10,726 | 16,632 |
| | 610 | -- | 610 |
| | 344,492 | 10,726 | 355,218 |
| | 90,437 | 151,843 | 242,280 |
| | 639,098 | 998,991 | 1,638,089 |
| | \$ 729,535 | \$ 1,150,834 | \$ 1,880,369 |

CITY OF AFTON, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION - Continued

As of and for the year ended June 30, 2021

| | | <u>Program Receipts</u> |
|-------------------------------|----------------------|---|
| | <u>Disbursements</u> | <u>Charges for Service</u> |
| | | <u>Operating Grants, Contributions, and Restricted Interest</u> |
| Cash Basis Net Position | | |
| Restricted: | | |
| Nonexpendable: | | |
| Perpetual care | | |
| Expendable: | | |
| Streets | | |
| Debt service | | |
| Other purposes | | |
| Unrestricted | | |
| Total cash basis net position | | |

The accompanying notes are an integral part of these statements.

| Program Receipts Capital Grants, Contributions, and Restricted Interest | Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|--|--|-----------------------------|---------------------|
| | Governmental Activities | Business Type Activities | Total |
| | \$ 72,218 | \$ -- | \$ 72,218 |
| | 80,131 | -- | 80,131 |
| | -- | 78,043 | 78,043 |
| | 495,028 | -- | 495,028 |
| | <u>82,158</u> | <u>1,072,791</u> | <u>1,154,949</u> |
| | <u>\$ 729,535</u> | <u>\$ 1,150,834</u> | <u>\$ 1,880,369</u> |

CITY OF AFTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2021

| | <u>General</u> | <u>Special Revenue</u> <u>Road Use Tax</u> |
|---|------------------|---|
| Receipts: | | |
| Property tax | \$ 138,597 | \$ -- |
| Other city tax | 32,970 | -- |
| Licenses and permits | 1,470 | -- |
| Use of money and property | 5,610 | -- |
| Intergovernmental | 20,383 | 126,465 |
| Charges for service | 80,693 | -- |
| Miscellaneous | 31,365 | -- |
| Total receipts | <u>311,088</u> | <u>126,465</u> |
| Disbursements: | | |
| Operating: | | |
| Public safety | 61,337 | -- |
| Public works | 140,979 | 105,646 |
| Culture and recreation | 72,046 | -- |
| Community and economic development | -- | -- |
| General government | 89,606 | -- |
| Capital projects | -- | -- |
| Total disbursements | <u>363,968</u> | <u>105,646</u> |
| Excess (deficiency) of receipts over (under) disbursements | (52,880) | 20,819 |
| Other financing sources (uses): | | |
| Transfers in | 56,975 | -- |
| Transfers out | -- | -- |
| Total other financing sources (uses) | <u>56,975</u> | <u>--</u> |
| Change in cash balances | 4,095 | 20,819 |
| Cash balances beginning of year | <u>78,063</u> | <u>59,312</u> |
| Cash balances end of year | <u>\$ 82,158</u> | <u>\$ 80,131</u> |

(continued next page)

| Special Revenue | | | |
|---------------------------|----------------------|-------------------|-------------------|
| Local Option Sales Tax | Capital Equipment | Nonmajor | Total |
| \$ -- | \$ -- | \$ 26,715 | \$ 165,312 |
| 135,219 | -- | 4,475 | 172,664 |
| -- | -- | -- | 1,470 |
| 3,290 | 47 | 1,507 | 10,454 |
| -- | 50,000 | 6,058 | 202,906 |
| -- | -- | 26,424 | 107,117 |
| -- | -- | 2,399 | 33,764 |
| <u>138,509</u> | <u>50,047</u> | <u>67,578</u> | <u>693,687</u> |
| | | | |
| -- | -- | 11,833 | 73,170 |
| -- | 75,823 | 2,878 | 325,326 |
| -- | -- | 29,143 | 101,189 |
| -- | -- | 4,000 | 4,000 |
| -- | -- | 8,411 | 98,017 |
| -- | -- | 1,548 | 1,548 |
| <u>--</u> | <u>75,823</u> | <u>57,813</u> | <u>603,250</u> |
| | | | |
| 138,509 | (25,776) | 9,765 | 90,437 |
| | | | |
| -- | 15,000 | 5,042 | 77,017 |
| (72,542) | -- | (4,475) | (77,017) |
| <u>(72,542)</u> | <u>15,000</u> | <u>567</u> | <u>--</u> |
| | | | |
| 65,967 | (10,776) | 10,332 | 90,437 |
| <u>339,980</u> | <u>12,974</u> | <u>148,769</u> | <u>639,098</u> |
| | | | |
| <u>\$ 405,947</u> | <u>\$ 2,198</u> | <u>\$ 159,101</u> | <u>\$ 729,535</u> |

CITY OF AFTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - Continued
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2021

| | <u>General</u> | <u>Special Revenue</u> <u>Road Use Tax</u> |
|--------------------------------|------------------------|---|
| Cash Basis Fund Balances | | |
| Nonspendable - Perpetual care | \$ -- | \$ -- |
| Restricted: | | |
| Streets | -- | 80,131 |
| Other purposes | -- | -- |
| Unassigned | <u>82,158</u> | <u>--</u> |
| Total cash basis fund balances | <u>\$ 82,158</u> | <u>\$ 80,131</u> |

The accompanying notes are an integral part of these statements.

| <u>Special Revenue</u> | | | |
|------------------------|------------------|-------------------|-------------------|
| <u>Local Option</u> | <u>Capital</u> | | |
| <u>Sales Tax</u> | <u>Equipment</u> | <u>Nonmajor</u> | <u>Total</u> |
| \$ -- | \$ -- | \$ 72,218 | \$ 72,218 |
| -- | -- | -- | 80,131 |
| 405,947 | 2,198 | 86,883 | 495,028 |
| <u>--</u> | <u>--</u> | <u>--</u> | <u>82,158</u> |
| <u>\$ 405,947</u> | <u>\$ 2,198</u> | <u>\$ 159,101</u> | <u>\$ 729,535</u> |

CITY OF AFTON, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2021

| | Enterprise | | | |
|---|------------|------------|--------------------------------|--------------|
| | Electric | Sewer | Non-Major Meter Deposits | Total |
| Operating receipts: | | | | |
| Charges for services | \$ 867,304 | \$ 92,622 | \$ 6,511 | \$ 966,437 |
| Total operating receipts | 867,304 | 92,622 | 6,511 | 966,437 |
| Operating disbursements: | | | | |
| Business type activities | 519,644 | 53,669 | 6,473 | 579,786 |
| Total operating disbursements | 519,644 | 53,669 | 6,473 | 579,786 |
| Excess of operating receipts over operating disbursements | 347,660 | 38,953 | 38 | 386,651 |
| Non-operating receipts (disbursements): | | | | |
| Interest on investments | 8,432 | 2,164 | 130 | 10,726 |
| Debt service | (163,370) | (37,541) | -- | (200,911) |
| Capital projects | (34,099) | (10,524) | -- | (44,623) |
| Net non-operating receipts (disbursements) | (189,037) | (45,901) | 130 | (234,808) |
| Excess (deficiency) of receipts over (under) disbursements and change in cash balances | 158,623 | (6,948) | 168 | 151,843 |
| Cash balances beginning of year | 766,542 | 210,688 | 21,761 | 998,991 |
| Cash balances end of year | \$ 925,165 | \$ 203,740 | \$ 21,929 | \$ 1,150,834 |
| Cash Basis Fund Balances | | | | |
| Restricted for debt service | \$ -- | \$ 78,043 | \$ -- | \$ 78,043 |
| Unrestricted | 925,165 | 125,697 | 21,929 | 1,072,791 |
| Total cash basis fund balances | \$ 925,165 | \$ 203,740 | \$ 21,929 | \$ 1,150,834 |

The accompanying notes are an integral part of these statements.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Afton, Iowa is a political subdivision of the State of Iowa located in Union County. It was first incorporated in 1868 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Afton has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Union County Solid Waste Commission, Southern Iowa Council of Governments, Union County Development Association, and Union County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statement

The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. The remaining enterprise fund is reported as a nonmajor enterprise fund.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the collection and use of local option sales tax.

The Capital Equipment Fund is used to account for all resources used in the acquisition and disposition of capital equipment of the City.

The City reports the following major proprietary funds:

Enterprise:

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Property Taxes and Governmental Cash Basis Fund Balances

The following accounting policies are followed in preparing the financial statements:

Property tax revenues recognized in the governmental funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2019 assessed property valuations; is for the tax accrual period July 1, 2020 through June 30, 2021 and reflects tax asking contained in the budget certified to the City Council in March, 2020.

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2021 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City owns common stock with a fair value of \$20,567, which was acquired by donation. The stock is recorded on the books at \$24,794 which was the fair value of the stock at the date the City received the donation. Although this type of investment is not permitted by the Code of Iowa, it was acquired by donation, therefore the City is not in violation of Chapter 12 of the Code of Iowa. The City's investment in the stock is unrated.

The City uses the fair value hierarchy established by generally accepted accounting principles based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, Level 3 inputs are significant unobservable inputs.

The fair value of the stock was determined using the quoted market prices (Level 1 inputs).

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 3 - NOTES PAYABLE

A summary of changes in notes payable for the year ended June 30, 2021 is as follows:

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> | <u>Due Within One Year</u> |
|--------------------------------|-------------------------------|------------------|-------------------|----------------------------|------------------------------------|
| Business type activities: | | | | | |
| Sewer Revenue Notes | \$ 483,000 | \$ -- | \$ 28,000 | \$ 455,000 | \$ 29,000 |
| Electric Revenue Note | <u>1,656,000</u> | <u>--</u> | <u>117,000</u> | <u>1,539,000</u> | <u>121,000</u> |
| Business type activities total | <u>\$2,139,000</u> | <u>\$ --</u> | <u>\$ 145,000</u> | <u>\$1,994,000</u> | <u>\$ 150,000</u> |

Annual debt service requirements to maturity for revenue capital loan notes are as follows:

| <u>Year Ending June 30,</u> | <u>Sewer Revenue Capital Loan Notes</u> | | | <u>Electric Revenue Capital Loan Note</u> | | |
|---------------------------------|---|-------------------|-------------------|---|--------------------|-------------------|
| | <u>Interest Rates</u> | <u>Principal</u> | <u>Interest</u> | <u>Interest Rates</u> | <u>Principal</u> | <u>Interest</u> |
| 2022 | \$ 1.75% | \$ 29,000 | \$ 7,709 | \$ 2.85% | \$ 121,000 | \$ 43,007 |
| 2023 | 1.75% | 29,000 | 7,201 | 2.85% | 124,000 | 39,529 |
| 2024 | 1.75% | 30,000 | 6,685 | 2.85% | 129,000 | 35,967 |
| 2025 | 1.75% | 30,000 | 6,160 | 2.85% | 132,000 | 32,262 |
| 2026 | 1.75% | 31,000 | 5,627 | 2.85% | 136,000 | 28,472 |
| 2027-2031 | 1.75% | 165,000 | 19,662 | 2.85% | 736,000 | 81,851 |
| 2032-2036 | 1.75% | <u>141,000</u> | <u>5,302</u> | 2.85% | <u>161,000</u> | <u>3,434</u> |
| | | <u>\$ 455,000</u> | <u>\$ 58,346</u> | | <u>\$1,539,000</u> | <u>\$ 264,522</u> |
| <u>Year Ending June 30,</u> | <u>Total</u> | | | | | |
| | <u>Principal</u> | | <u>Interest</u> | | | |
| 2022 | \$ 150,000 | | \$ 50,716 | | | |
| 2023 | 153,000 | | 46,730 | | | |
| 2024 | 159,000 | | 42,652 | | | |
| 2025 | 162,000 | | 38,422 | | | |
| 2026 | 167,000 | | 34,099 | | | |
| 2027-2031 | 901,000 | | 101,513 | | | |
| 2032-2036 | <u>302,000</u> | | <u>8,736</u> | | | |
| | <u>\$ 1,994,000</u> | | <u>\$ 322,868</u> | | | |

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 3 - NOTES PAYABLE - Continued

Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$580,000 in sewer revenue notes issued in January, 2015, and November, 2015. Proceeds from the notes provided financing for the repair and improvement of the sewer system. The notes carry an interest rate of 1.75% and are payable solely from sewer customer net receipts and are payable through 2036. Annual principal and interest payments on the notes are expected to require approximately 96 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$513,346. For the current year, principal and interest paid and total customer net receipts were \$37,541 and \$38,953, respectively.

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$1,985,000 in an electric revenue note issued May, 2017. Proceeds from the May, 2017 note were used to refund an August, 2015 electric revenue note which was used for the repair and improvement of the electric system. The May, 2017 note carries an interest rate of 2.85% and is payable solely from electric customer net receipts and is payable through 2032. Annual principal and interest payments on the note are expected to require approximately 47 percent of net receipts. The total principal and interest remaining to be paid on the note is \$1,803,522. For the current year, principal and interest paid and total customer net receipts were \$163,370 and \$347,660, respectively.

The resolutions providing for the issuance of the sewer revenue notes include the following provisions.

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holder holds a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue note sinking accounts within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers shall be made to a separate sewer revenue reserve account within the Enterprise Funds until a specific minimum balance has been accumulated. These accounts are restricted for the purpose of paying principal at maturity or interest in the note when insufficient money is available in the sewer revenue note sinking account.
- d. Additional monthly transfers shall be made to a sewer improvement account within the Enterprise Funds, after first making the required payments to the sewer revenue note sinking and reserve accounts, until a specific minimum balance has been accumulated. This account shall be used solely for the purpose of paying principal or interest on the note when there is insufficient money in the sewer revenue note sinking and reserve accounts; and to the extent not required for the foregoing, to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements, payments of rentals on any part of the system and for capital improvements.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 4 - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except for members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55 and may retire any time after reaching age 50 with 22 or more years of covered employment. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 4 - PENSION PLAN - Continued

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2021, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%. Protection occupation members contributed 6.41% of covered payroll and the City contributed 9.61% of covered payroll, for a total rate of 16.02%.

The City's contributions to IPERS for the year ended June 30, 2021 were \$14,947.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2021, the City reported a liability of \$100,071 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2020, the City's proportion was 0.001425%, which was an increase of 0.000088% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$20,189, \$26,520 and \$13,800, respectively.

There were no non-employer contributing entities to IPERS.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 4 - PENSION PLAN - Continued

Actuarial Assumptions - The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

| | |
|--|--|
| Rate of inflation (effective June 30, 2017) | 2.60% per annum. |
| Rate of salary increase (effective June 30, 2017) | 3.25% to 16.25% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 2017) | 7.00% compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 2017) | 3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation. |

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an economic assumption dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2020 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|--------------------------|-------------------------|---|
| Domestic equity | 22.0% | 4.43% |
| International equity | 17.5 | 5.15 |
| Global smart beta equity | 6.0 | 4.87 |
| Core plus fixed income | 28.0 | (0.29) |
| Public credit | 4.0 | 2.29 |
| Cash | 1.0 | (0.78) |
| Private equity | 11.0 | 6.54 |
| Private real assets | 7.5 | 4.48 |
| Private credit | 3.0 | 3.11 |
| Total | <u>100%</u> | |

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 4 - PENSION PLAN - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

| | <u>1% Decrease (6.00%)</u> | <u>Discount Rate (7.00%)</u> | <u>1% Increase (8.00%)</u> |
|---|------------------------------------|--------------------------------------|------------------------------------|
| City's proportionate share of the net pension liability | \$ 190,272 | \$ 100,071 | \$ 24,468 |

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time payable to employees at June 30, 2021, primarily relating to the General and Enterprise funds is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|------------------|
| Vacation | \$ 10,177 |
| Comp time | <u>1,285</u> |
| | <u>\$ 11,462</u> |

The liability has been computed based on rates of pay as of June 30, 2021.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 6 - RISK MANAGEMENT

The City of Afton is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 7 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2021 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|----------------------|------------------------|------------------|
| General | Special Revenue: | |
| | Local Option Sales Tax | \$ 52,500 |
| | Emergency | 4,475 |
| | | <u>56,975</u> |
| Special Revenue: | Special Revenue: | |
| Economic Development | Local Option Sales Tax | 4,000 |
| Special Revenue: | Special Revenue: | |
| Capital Equipment | Local Option Sales Tax | 15,000 |
| Capital Projects | Special Revenue: | |
| | Local Option Sales Tax | <u>1,042</u> |
| | | <u>\$ 77,017</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 8 - RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials totaling \$44,388 during the year ended June 30, 2021.

CITY OF AFTON, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2021

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2021, the City contributed \$15,565 and plan members eligible for benefits contributed \$ - 0 - to the plan. At June 30, 2021, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits: Individuals who are employed by the City and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2021, the following employees were covered by the benefit terms:

| | |
|--|-----------------|
| Inactive employees or beneficiaries currently receiving benefit payments | 0 |
| Active employees | <u>3</u> |
| Total | <u><u>3</u></u> |

NOTE 10 - COVID-19

In March, 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the City of Afton, remains uncertain.

To date, the outbreak has not created a material disruption to the operations of the City. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the City.

NOTE 11 - CONSTRUCTION CONTRACTS

The City has entered into construction contract commitments totaling approximately \$130,000 that have remaining commitments at June 30, 2021 of approximately \$115,000. The unpaid contract balances will be financed with existing sewer funds and grant proceeds.

NOTE 12 - SUBSEQUENT EVENTS

The City has evaluated all subsequent events through August 16, 2021, the date the financial statements were available to be issued.

* * *

OTHER INFORMATION

CITY OF AFTON, IOWA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL
FUNDS AND PROPRIETRY FUNDS
OTHER INFORMATION

Year ended June 30, 2021

| | <u>Governmental Funds Actual</u> | <u>Proprietary Funds Actual</u> | <u>Total</u> |
|---|--------------------------------------|-------------------------------------|---------------------|
| Receipts: | | | |
| Property tax | \$ 165,312 | \$ -- | \$ 165,312 |
| Other city tax | 172,664 | -- | 172,664 |
| Licenses and permits | 1,470 | -- | 1,470 |
| Use of money and property | 10,454 | 10,726 | 21,180 |
| Intergovernmental | 202,906 | -- | 202,906 |
| Charges for service | 107,117 | 966,437 | 1,073,554 |
| Miscellaneous | 33,764 | -- | 33,764 |
| Total receipts | <u>693,687</u> | <u>977,163</u> | <u>1,670,850</u> |
| Disbursements: | | | |
| Public safety | 73,170 | -- | 73,170 |
| Public works | 325,326 | -- | 325,326 |
| Culture and recreation | 101,189 | -- | 101,189 |
| Community and economic development | 4,000 | -- | 4,000 |
| General government | 98,017 | -- | 98,017 |
| Capital projects | 1,548 | -- | 1,548 |
| Business type activities | -- | 825,320 | 825,320 |
| Total disbursements | <u>603,250</u> | <u>825,320</u> | <u>1,428,570</u> |
| Excess (deficiency) of receipts over (under) disbursements | 90,437 | 151,843 | 242,280 |
| Other financing sources (uses), net | <u>--</u> | <u>--</u> | <u>--</u> |
| Change in balances | 90,437 | 151,843 | 242,280 |
| Balances beginning of year | <u>639,098</u> | <u>998,991</u> | <u>1,638,089</u> |
| Balances end of year | <u>\$ 729,535</u> | <u>\$ 1,150,834</u> | <u>\$ 1,880,369</u> |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|---------------------|---------------------|-------------------|
| Original | Final | Total Variance |
| \$ 192,609 | \$ 192,609 | \$ (27,297) |
| 102,332 | 102,332 | 70,332 |
| 1,330 | 1,330 | 140 |
| 17,865 | 17,865 | 3,315 |
| 161,955 | 161,955 | 40,951 |
| 1,138,775 | 1,138,775 | (65,221) |
| 15,875 | 15,875 | 17,889 |
| <u>1,630,741</u> | <u>1,630,741</u> | <u>40,109</u> |
| 76,334 | 76,334 | 3,164 |
| 336,004 | 336,004 | 10,678 |
| 111,030 | 111,030 | 9,841 |
| 10,500 | 10,500 | 6,500 |
| 101,035 | 101,035 | 3,018 |
| 5,500 | 5,500 | 3,952 |
| <u>1,016,511</u> | <u>1,016,511</u> | <u>191,191</u> |
| <u>1,656,914</u> | <u>1,656,914</u> | <u>228,344</u> |
| (26,173) | (26,173) | 268,453 |
| -- | -- | -- |
| (26,173) | (26,173) | 268,453 |
| <u>1,563,284</u> | <u>1,563,284</u> | <u>74,805</u> |
| <u>\$ 1,537,111</u> | <u>\$ 1,537,111</u> | <u>\$ 343,258</u> |

CITY OF AFTON, IOWA
NOTES TO OTHER INFORMATION -
BUDGETARY REPORTING

June 30, 2021

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, Permanent Fund, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. No budget amendments were made during the year.

See accompanying independent auditor's report.

CITY OF AFTON, IOWA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST SEVEN FISCAL YEARS*

OTHER INFORMATION

| | <u>2021</u> | <u>2020</u> |
|--|-------------|-------------|
| City's proportion of the net pension liability | 0.001425% | 0.001337% |
| City's proportionate share of the net pension liability | \$ 100,100 | \$ 77,400 |
| City's covered payroll | \$ 149,300 | \$ 145,600 |
| City's proportionate share of the net pension liability as a percentage of its covered payroll | 67.05% | 53.15% |
| IPERS' net position as a percentage of the total pension liability | 82.90% | 85.45% |

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

Note: Amounts are rounded.

See accompanying independent auditor's report.

| <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|-------------|-------------|-------------|-------------|-------------|
| 0.001311% | 0.001317% | 0.001565% | 0.001330% | 0.001151% |
| \$ 83,000 | \$ 87,700 | \$ 98,500 | \$ 65,700 | \$ 45,600 |
| \$ 152,700 | \$ 145,900 | \$ 159,600 | \$ 147,400 | \$ 145,000 |
| 54.35% | 60.11% | 61.72% | 44.57% | 31.45% |
| 83.62% | 82.21% | 81.82% | 85.19% | 87.61% |

CITY OF AFTON, IOWA
SCHEDULE OF CITY CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST SEVEN FISCAL YEARS

OTHER INFORMATION

| | <u>2021</u> | <u>2020</u> |
|---|------------------|------------------|
| Statutorily required contribution | \$ 14,900 | \$ 14,500 |
| Contributions in relation to the statutorily required contribution | <u>(14,900)</u> | <u>(14,500)</u> |
| Contribution deficiency (excess) | <u>\$ --</u> | <u>\$ --</u> |
| City's covered payroll | \$ 157,100 | \$ 149,300 |
| Contributions as a percentage of covered payroll | 9.48% | 9.71% |

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Note: Amounts are rounded.

See accompanying independent auditor's report.

| <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|------------------|------------------|------------------|------------------|------------------|
| \$ 14,100 | \$ 14,100 | \$ 13,500 | \$ 14,700 | \$ 13,700 |
| <u>(14,100)</u> | <u>(14,100)</u> | <u>(13,500)</u> | <u>(14,700)</u> | <u>(13,700)</u> |
| <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> |
| \$ 145,600 | \$ 152,700 | \$ 145,900 | \$ 159,600 | \$ 147,400 |
| 9.68% | 9.23% | 9.25% | 9.21% | 9.29% |

CITY OF AFTON, IOWA
NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2021

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

* * *

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

CITY OF AFTON, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2021

| | Special Revenue | | | | |
|---|----------------------|-----------------|-------------------------|------------------|-------------------|
| | Employee Benefits | Emergency | Economic Development | Walking Trail | Tyler Cemetery |
| Receipts: | | | | | |
| Property tax | \$ 26,715 | \$ -- | \$ -- | \$ -- | \$ -- |
| Other city tax | -- | 4,475 | -- | -- | -- |
| Use of money and property | 136 | -- | -- | 8 | 1,083 |
| Intergovernmental | -- | -- | -- | -- | -- |
| Charges for service | -- | -- | -- | -- | -- |
| Miscellaneous | -- | -- | -- | -- | -- |
| Total receipts | <u>26,851</u> | <u>4,475</u> | <u>--</u> | <u>8</u> | <u>1,083</u> |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public safety | 11,833 | -- | -- | -- | -- |
| Public works | 2,878 | -- | -- | -- | -- |
| Culture and recreation | -- | -- | -- | 1,175 | -- |
| Community and economic development | -- | -- | 4,000 | -- | -- |
| General government | 8,411 | -- | -- | -- | -- |
| Capital projects | -- | -- | -- | -- | -- |
| Total disbursements | <u>23,122</u> | <u>--</u> | <u>4,000</u> | <u>1,175</u> | <u>--</u> |
| Excess (deficiency) of receipts over (under) disbursements | 3,729 | 4,475 | (4,000) | (1,167) | 1,083 |
| Other financing sources (uses): | | | | | |
| Transfers in | -- | -- | 4,000 | -- | -- |
| Transfers out | <u>--</u> | <u>(4,475)</u> | <u>--</u> | <u>--</u> | <u>--</u> |
| Total other financing sources (uses) | <u>--</u> | <u>(4,475)</u> | <u>4,000</u> | <u>--</u> | <u>--</u> |
| Change in cash balances | 3,729 | -- | -- | (1,167) | 1,083 |
| Cash balances beginning of year | <u>23,277</u> | <u>--</u> | <u>--</u> | <u>1,980</u> | <u>26,348</u> |
| Cash balances end of year | <u>\$ 27,006</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ 813</u> | <u>\$ 27,431</u> |

(continued next page)

| Special Revenue | | | Capital Projects | Permanent | Total | | |
|------------------|------------|---------------|---------------------|-------------------|-------|----|---------|
| Huss Cemetery | Recreation | Sick Leave | | Perpetual Care | | | |
| \$ | -- | \$ | -- | \$ | -- | \$ | 26,715 |
| | -- | | -- | | -- | | 4,475 |
| | 37 | | 157 | | -- | | 1,507 |
| | -- | | -- | | 6,058 | | 6,058 |
| | -- | | 26,424 | | -- | | 26,424 |
| | -- | | -- | | 2,399 | | 2,399 |
| | 37 | | 26,581 | | 86 | | 6,058 |
| | | | | | 2,399 | | 67,578 |
| | | | | | | | |
| | -- | | -- | | -- | | 11,833 |
| | -- | | -- | | -- | | 2,878 |
| | -- | | 27,968 | | -- | | 29,143 |
| | | | | | | | |
| | -- | | -- | | -- | | 4,000 |
| | -- | | -- | | -- | | 8,411 |
| | -- | | -- | | 1,548 | | 1,548 |
| | -- | | 27,968 | | 1,548 | | 57,813 |
| | | | | | | | |
| | 37 | (| 1,387) | | 86 | | 4,510 |
| | | | | | | | 2,399 |
| | | | | | | | 9,765 |
| | | | | | | | |
| | -- | | -- | | -- | | 1,042 |
| | -- | | -- | | -- | | 5,042 |
| | | | | | | (| 4,475) |
| | | | | | | | |
| | -- | | -- | | 1,042 | | 567 |
| | | | | | | | |
| | 37 | (| 1,387) | | 86 | | 5,552 |
| | | | | | | | 2,399 |
| | | | | | | | 10,332 |
| | 11,780 | | 15,418 | | 5,699 | (| 5,552) |
| | | | | | | | 69,819 |
| | | | | | | | 148,769 |
| \$ | 11,817 | \$ | 14,031 | \$ | 5,785 | \$ | -- |
| | | | | | | \$ | 72,218 |
| | | | | | | \$ | 159,101 |

CITY OF AFTON, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS - Continued

As of and for the year ended June 30, 2021

| | Special Revenue | | | | |
|-----------------------------------|------------------------------|------------------|---------------------------------|--------------------------|---------------------------|
| | <u>Employee Benefits</u> | <u>Emergency</u> | <u>Economic Development</u> | <u>Walking Trail</u> | <u>Tyler Cemetery</u> |
| Cash Basis Fund Balances | | | | | |
| Nonspendable - perpetual care | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Restricted | | | | | |
| Other purposes | <u>27,006</u> | <u>--</u> | <u>--</u> | <u>813</u> | <u>27,431</u> |
| Total cash basis fund balances | <u>\$ 27,006</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ 813</u> | <u>\$ 27,431</u> |

See accompanying independent auditor's report.

| | <u>Special Revenue</u> | | | | <u>Permanent</u> | |
|------------------|------------------------|-----------------|-----------------|------------------|-------------------|--|
| <u>Huss</u> | <u>Recreation</u> | <u>Sick</u> | <u>Capital</u> | <u>Perpetual</u> | <u>Total</u> | |
| <u>Cemetery</u> | | <u>Leave</u> | <u>Projects</u> | <u>Care</u> | | |
| \$ -- | \$ -- | \$ -- | \$ -- | \$ 72,218 | \$ 72,218 | |
| <u>11,817</u> | <u>14,031</u> | <u>5,785</u> | <u>--</u> | <u>--</u> | <u>86,883</u> | |
| <u>\$ 11,817</u> | <u>\$ 14,031</u> | <u>\$ 5,785</u> | <u>\$ --</u> | <u>\$ 72,218</u> | <u>\$ 159,101</u> | |

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Afton, Iowa, as of and for the year ended June 30, 2021, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 16, 2021. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Afton's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Afton's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Afton's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Honorable Mayor and
Members of the City Council

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 21-I-A.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Afton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2021 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Response to Finding

The City of Afton's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The City of Afton's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gregory M. Reed, John & W. P. C.

Atlantic, Iowa
August 16, 2021

CITY OF AFTON, IOWA
Schedule of Findings and Responses
Year ended June 30, 2021

PART I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES:

21-I-A Segregation of Duties:

Criteria: Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition: A limited number of people have the primary responsibility for most of the accounting and financial reporting duties.

Cause: The City has a limited number of employees which does not allow procedures to be established to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect: Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation: We recognize that it may not be economically feasible for the City to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Mayor and Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Mayor and Council are aware of this lack of segregation of duties, but it is not economically feasible for the City to employ additional personnel for this reason. The Mayor and Council will continue to act as an oversight group.

Conclusion: Response accepted.

* * *

CITY OF AFTON, IOWA
Schedule of Findings and Responses
Year ended June 30, 2021

PART II: Other Findings Related to Required Statutory Reporting

21-II-A Certified Budget: Disbursements during the year ended June 30, 2021 did not exceed the amounts budgeted.

21-II-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

21-II-C Travel Expense: No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

21-II-D Business Transactions: Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|------------------------------------|---------------|
| Allen Landers, spouse of City Clerk, insurance agent of Hometown Insurance | Insurance, per bid | \$ 43,888 |
| Jake McGuire, Police Chief | Exterior beautification | 500 |

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction for insurance does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa. In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction for exterior beautification does not appear to represent a conflict of interest since the total transaction with the individual was less than \$6,000 during the fiscal year.

21-II-E Restricted Donor Activity: No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

21-II-F Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

21-II-G Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

CITY OF AFTON, IOWA
Schedule of Findings and Responses
Year ended June 30, 2021

PART II: Other Findings Related to Required Statutory Reporting - Continued

21-II-H Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

21-II-I Revenue Notes: No instances of non-compliance with the revenue note resolutions were noted.

* * *